



## LEGISLATIVE UPDATES

This past legislative season produced several changes to the Unemployment Insurance (UI) Program. Among these are the SUTA (State Unemployment Tax Act) Dumping Prevention Act of 2004 and the passage of HB-2093.

### SUTA Dumping-Is It Illegal?

Employers who engage in SUTA dumping or other rate manipulation schemes knowingly misrepresent facts about their business. It is illegal under Arizona statutes to knowingly make false statements and omit material facts on UI tax documents in order to reduce UI taxes. In addition, new laws have recently been passed to combat SUTA dumping:

**SUTA Dumping Prevention Act of 2004** - Signed by President Bush in August 2004, this law requires each state to enact laws to prevent employers from inappropriately lowering the UI contribution rates. The law not only bans SUTA dumping but also levies heavy penalties on those who engage in or promote such abusive practices.

**HB-2093** - With the passage of HB-2093, Arizona now has enacted legislation as a result of the federal SUTA Dumping Prevention Act. This new law, effective August 12, 2005, provides for employers who are caught illegally lowering their UI rates to pay at the highest rate provided by law, (5.40) or at their current rate plus an additional two percent, whichever is greater. The new law also provides for a \$5,000 penalty for anyone who is not an employer who knowingly advising another person or business to violate Arizona's UI rate and reporting laws. The new law also provides that if the acquisition was for the purpose of getting a lower UI rate, the transfer will be denied.

### What Harm Does SUTA Dumping Cause?

SUTA dumping hurts everyone – employers, employees, and taxpayers make up the difference in higher taxes, lost jobs, lost profits, lower wages, and higher costs for goods and services.

### SUTA Dumping Schemes

There are several variations on the schemes businesses use to inappropriately lower their UI tax rate. Employers should become aware of these schemes and their potential legal ramifications. Examples of SUTA dumping schemes are:

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**[www.azui.com](http://www.azui.com)**

Using the website, you can file your reports, pay your quarterly tax, and inform the department of any changes. All you need is your 8 digit account number and the assigned password. Both of these items are displayed on the preprinted Unemployment Tax and Wage Report. If you need password assistance, please contact the **Help Desk at 602-542-2460**.

### **Purchased Shell Transaction**

A Business with a large payroll and a high UI rate purchases a corporate shell with a low UI rate and transfers its payroll to the purchased entity.

### **Affiliated Shell Transaction**

A new corporation is registered, and a small payroll is reported each year until a low or minimum UI rate is achieved. Once the low rate is achieved, large payroll amounts from another related corporation are transferred into this account.

### **Reporting Under a Client's Employer Account Number**

An employee leasing company or professional employer organization (PEO) with a high UI rate shifts its payroll to the account number of one of its clients with a lower UI rate.

### **Partial Reserve Account Acquisition**

A new business applies for a transfer of part of the reserve account of another company. When the small reserve balance is acquired, a correspondingly small average base payroll is also acquired. A related entity then shifts hundreds of millions of payroll into the small account. Because the average base payroll is tallied on a calendar year basis and

reserve accounts accumulate quarterly, the result is to flood the reserve balance in relation to the small average base payroll. A minimum rate is attained in the succeeding year.

For more examples of SUTA Dumping, see our website: [www.azdes.gov/esa/uitax/suta.asp](http://www.azdes.gov/esa/uitax/suta.asp)

### What Is DES Doing to Fight SUTA Dumping?

The Department of Economic Security actively pursues and prosecutes employers who participate in SUTA dumping and other tax manipulation schemes and has the authority to subpoena records and individuals in its investigations. In addition, DES regularly conducts outreach with employers and tax advisors to ensure they are aware of these schemes and to help them avoid future legal trouble.

### How to Report SUTA Dumping

If you think someone is committing fraud or engaging in SUTA dumping, please report it to us immediately. All allegations of fraud are taken seriously. Please provide as much information as you can, including:

- Employer name, address, and telephone number
- Employer account number
- What they are doing
- When they started doing it
- Your name, address, and telephone number (optional)

### To Report SUTA Fraud:

- Phone: Experience Rating 602-248-9101 ext 5501
- E-mail: [uit.experience@mail.de.state.az.us](mailto:uit.experience@mail.de.state.az.us)
- Fax: 602-277-3404

### MISSING QUARTERLY REPORTS

Have you submitted all of your quarterly Unemployment Tax and Wage Reports (UC-018) up to and including quarter ending 6/30/05? If not, you may be assessed a tax rate in the year 2006 that does not reflect your Unemployment experience accurately. Your 2006 tax rate is normally computed using the data on file from the Tax and Wage Reports submitted up to and including June 30, 2005. However, when a quarterly Tax and Wage Report is missing, we are required to compute the tax rate using the estimated wages.

When we do not receive a report, we send you a notice (UC-062) requesting the missing report(s). If you do not respond to the UC-062 request, then we notify you with an "Estimated Wage Letter" which is sent in October. This letter gives you one last opportunity to provide the missing report(s) to the Department before we compute your tax rate using the estimated wages. If you receive an Estimated Wage Letter please call the Experience Rating Unit. If you

think you may have neglected to submit a report please contact the Collections Unit at 602-248-9354.

## U.I. TAX DIRECTORY

**Employer Accounting Unit:** 602-248-9354  
**Fax:** 602-650-1451  
**[uit.accounting@mail.de.state.az.us](mailto:uit.accounting@mail.de.state.az.us)**  
Unemployment Insurance Tax and Wage Report (UC-018)

**Employer Status Unit:** 602-248-9396  
**Fax:** 602-650-1298  
**[uit.status@mail.de.state.az.us](mailto:uit.status@mail.de.state.az.us)**  
Registration of new employers or acquisition of existing businesses (UC-001); Changes to existing accounts (UC-514)

**Experience Rating Unit:** 602-248-9101  
**Fax:** 602-277-3404  
**[uit.experience@mail.de.state.az.us](mailto:uit.experience@mail.de.state.az.us)**  
Determination of UI Tax Rate for Calendar Year (UC-603) and Benefit Charge Notices (UC-602)

**Collections:** 602-248-9354  
**Fax:** 602-277-3351  
**[uit.collections@mail.de.state.az.us](mailto:uit.collections@mail.de.state.az.us)**  
Past due payments; Payment scheduling; and Lien or Levy information

**UI Tax Section Mailing Address:**  
PO Box 6028, Phoenix, AZ 85005-6028

<b><u>Field Audit Offices</u></b>	<b><u>Phone</u></b>	<b><u>FAX</u></b>
<b>Phoenix East:</b>	<b>602-952-1815</b>	<b>602-952-1758</b>
<b>Glendale:</b>	<b>602-371-0590</b>	<b>602-371-1053</b>
<b>Mesa:</b>	<b>480-345-1573</b>	<b>480-345-8783</b>
<b>Tucson:</b>	<b>520-628-6820</b>	<b>520-628-6826</b>
<b>Lake Havasu:</b>	<b>928-855-5178</b>	<b>928-855-7564</b>
<b>Prescott:</b>	<b>928-778-4121</b>	<b>928-771-9498</b>
<b>Showlow:</b>	<b>928-532-4377</b>	<b>928-532-4359</b>
<b>Sierra Vista:</b>	<b>520-459-2491</b>	<b>520-452-9028</b>
<b>Flagstaff:</b>	<b>928-779-3601</b>	<b>928-774-9530</b>

Equal Opportunity Employer/Program ♦ Under the Americans with Disabilities Act (ADA), the Department must make a reasonable accommodation to allow a person with a disability to take part in a program, service, or activity. For example, this means that if necessary, the Department must provide sign language interpreters for people who are deaf, a wheelchair accessible location, or enlarged print materials. It also means that the Department will take any other reasonable action that allows you to take part in and understand a program or activity, including making reasonable changes to an activity. If you believe that you will not be able to understand or take part in a program or activity because of your disability, please let us know of your disability needs in advance if at all possible. This document is available in alternative formats by contacting the UI Tax office.